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ABSTRACT

This booklet is designed to help individuals make housing decisions in an informed, rational manner. It is suitable for personal use by adults or for classroom use in junior high through adult home economics or consumer education classes. After helping the reader determine needs and wants and how much money is available for housing, the booklet moves step by step through the processes of renting and buying. It then provides guidance and information for living happily in the home of one's choice. Specific topics covered by this guide include the following: housing needs and wants; renting, buying, or building; housing affordability; housing checklists; types of housing; professionals who can help; purchase arrangements; financing housing; insurance; maintenance, repairs, and home improvements; energy-efficient housing; selling a home; and planning a move. A list of organizations, books, and pamphlets is included in the guide. (KC)

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money management

Your Housing Dollar

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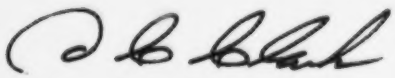

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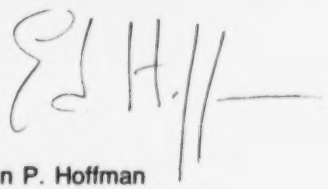

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Your Housing Dollar

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Introduction

There's much at stake when we make housing decisions—not only a great deal of money but the degree of satisfaction we experience as we live in a dwelling day after day. The purpose of YOUR HOUSING DOLLAR is to help you make important housing decisions in an informed, rational manner—your best bet of obtaining a residence that pleases at a price you can afford!

The editors have attempted to reduce the vast amount of material available on this subject to the essentials. After helping you determine your needs and wants and what you can spend on housing, this booklet will take you step by step through the processes of renting and buying. It will then provide you with the guidance and information that can help you "live happily ever after" in the home of your choice.

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Housing Needs and Wants

Our housing, whether rented or purchased, provides us with many essential services and meets different kinds of needs and wants. These have changed considerably in the past few years, however, because of the following social and economic changes:

- smaller nuclear families
- more working women
- a higher divorce rate
- a larger number of singles
- more singles buying housing
- more households comprised of unrelated adults
- high costs of interest, energy, construction and land
- the increasing scarcity of suburban land in some metropolitan areas.

There are, as a result, far more condominiums, townhouses and duplexes and a greater number of apartment complexes catering to special groups like singles and retirees. Interestingly enough, the number of no-frills, start-up houses has declined and the number of luxury homes on large lots is increasing in some areas.

Despite these changes, housing* remains the setting for much of our physical, emotional and social development. A wise investment in it means an investment in happier living, because our dwellings have a great effect upon the quality of our lives. In order to choose housing wisely, however, we must take lifestyle as well as income into account.

Before launching your search, examine your interests, likes and dislikes, personality, capabilities, ambitions, and those of any family members who live with you. What are the things that mean most to you? Is your home of utmost importance or is it mostly a place to "hang your hat"? What are your major activities? Do you value privacy and quiet or do you lead an active social life, with much entertaining?

How close must you be to your work? Do you like puttering around the house, or do you prefer keeping "home work" to an absolute minimum? Do family members seek lots of togetherness or do you each pursue individual interests? Do you require dependable public transportation? Is it important to you to put down roots and become a contributing member of the community?

How important are your *non*housing needs and wants? Are you willing to give up other things to have the residence you want? Are you inclined to spend less on housing and put more into travel, education, hobbies, investing or other pursuits? Answering these and similar questions can help you establish your priorities. List your essentials first, then the "desirables," in order of importance.

* In this booklet, "housing" refers to any dwelling, rented or purchased, that serves as living quarters for an individual or family—an apartment, townhouse, duplex or single-family detached house.

Will You Rent, Buy or Build?

Although most of us dream of one day owning our own home, practically everyone rents at some point in life—for very good reasons! Renting would probably suit you best if:

- you cannot swing a down payment.
- your future housing needs cannot be accurately estimated.
- you would like to investigate a community more thoroughly before buying.
- you expect to move again soon.
- you don't want the responsibilities of ownership.
- you can rent a better quality of housing than you can buy for the same monthly outlay.

Renters usually spend less on housing than homeowners and... have no down payment or closing costs... undertake a minimum financial risk... have more financial flexibility... have more control over the amounts they spend on housing... have minimal responsibility for maintenance and few if any repair costs... are committed to remain in the unit a minimum length of time.

On the other hand, renters... don't benefit from their dwelling's increase in value... can expect periodic rent increases... cannot build equity... are not free to make decorative and structural changes... cannot deduct mortgage interest and real estate taxes from their income tax. (U.S. homeowners can make these deductions; Canadian homeowners cannot.)

Buying or building usually works out favorably when:

- you are able to realistically estimate your housing needs.
- you know where you want to live.
- you expect to be in the same location for some time.
- you have sufficient cash reserves to make a down payment, arrange a suitable mortgage, pay closing costs and other expenses.
- you expect your income to regularly increase.
- you do not have or expect to have any major financial obligations in the near future.
- you have adequate life insurance and enough savings for emergencies.
- you want the homeownership and welcome the responsibilities involved.
- you are willing to give up other things.
- you can handle your own maintenance and repairs.
- you can obtain the type of dwelling and neighborhood you like *only* if you buy.
- you find market conditions favorable for buying or building.

Housing buyers find that they... frequently get a monetary return from their investment while meeting essential needs... are in a sense "saving" a portion of the money put into monthly housing payments... can deduct property taxes and interest charges from their income tax... have stability because no landlord can insist that they move.

Buying, on the other hand... means a long-term commitment... ties up thousands of dollars that could be earning a return elsewhere... usually costs more than renting... involves the responsibility for maintenance and repairs... reduces mobility. If you have to move and cannot sell, you might have to pay two mortgages. You may also have to take a loss if the property declines in value.

Can You Afford Higher Housing Costs?

Keep in mind that the costs of day-to-day living in a home are fully as consequential as the purchase price. To find out if you can afford to change housing, you must determine four things:

- your monthly cash flow
- your cash reserves
- your future monthly housing expenses
- your purchase costs

If, after filling out the charts in this section, you find that you do not have enough income or savings to change your housing now, start working out ways of altering this situation. Keep in mind that financial goals can be met through proper planning and careful adherence to those plans.

Your Present Financial Situation

Before beginning your search, determine 1) how much you can afford to spend monthly on housing, and 2) how much you can afford for a down payment and other purchase costs. Charts I and II can help you make these calculations.

Your Monthly Cash Flow

There are no hard-and-fast rules on monthly housing costs because of differing values, but it *is* essential to have enough monthly income left over for nonhousing needs and wants and for savings. As a start, analyze your present spending and saving patterns, using the left column of the simple financial plan* (Chart I).

First calculate your monthly income, then determine how much you now spend on housing and nonhousing expenses. Refer to cancelled checks, statements, invoices and receipts, if necessary.

*YOUR FINANCIAL PLAN, listed on page 36, provides more detailed guidance and information to help you set up and manage an overall spending and savings plan, and figure your net worth.

Chart I

YOUR CURRENT MONTHLY EXPENSES

Monthly Income		
Net pay (after taxes)	$_____	
Other income	_____	
Total	$_____	
Housing Expenses	**Current**	**Future**
Rent or mortgage payment	$_____	$_____
Property taxes	_____	_____
Property insurance	_____	_____
Special assessments	_____	_____
Utilities (gas, electric, water, phone)	_____	_____
Services (yard care, trash pickup)	_____	_____
Savings fund for maintenance, repairs, remodeling and home furnishings	_____	_____
Other	_____	_____
Total	$_____	$_____
Nonhousing Expenses		
Food and household supplies	$_____	
Transportation	_____	
Installment payments	_____	
Clothing and dry cleaning	_____	
Insurance	_____	
Medical expenses	_____	
Recreation/vacation	_____	
Personal expenses (haircuts, cosmetics, snacks, etc.)	_____	
Savings	_____	
Charity	_____	
Other	_____	
Total	$_____	
Total Monthly Expenditures (housing and nonhousing)	$_____	
Subtract total monthly expenses from total income		
Balance	$_____	

Divide annual expenses—taxes and insurance, e.g.—by 12, to see what they average monthly. To determine the costs of periodic maintenance and repairs, use the totals over several years to arrive at a reasonable monthly average. This category is probably the most difficult to estimate, but it is essential to do so because maintenance and repairs can involve a lot of money.

Add your housing and nonhousing expenses together, then deduct the total from your net monthly income in order to find out how much money, if any, you have left over for more costly housing. Is there any flexibility in your financial plan?

Your Cash Reserves

Chart II can help you estimate your cash reserves. Begin by calculating those assets that can be readily converted to cash, then those less readily converted: the cash value of a whole life insurance policy, a profit-sharing plan, retirement or pension fund, and personal possessions, for example. Total up your liabilities—installment debts, taxes, etc.—on a separate sheet of paper and subtract this figure from your total assets to learn your net worth. (Remember that you'll need a cushion of three months' income for emergency use.) It should now be quite easy to tell how many of your assets could be converted to cash.

What Your Future Housing Will Cost

Future housing expenses involve not only your anticipated *monthly* costs but a number of charges upfront that must be paid immediately. Renters usually must pay an application fee and security deposit while buyers have closing costs; *both* must pay utility deposits and the expenses connected with moving.

Chart II

YOUR CASH RESERVES

Source	Amount
Cash on hand	
Checking account	$_____
Savings account	_____
Money market account	_____
Government securities	_____
Other investments	_____
Sale of present home	_____
Other	_____
Total Assets	$_____
Total Liabilities	$_____
Subtract liabilities from assets to determine how much you have available.	$_____

Chart III

MOVING EXPENSES

Costs associated with moving	Estimated costs
Movers	$_____
Repairs (on older houses)	_____
Decorating	_____
New furniture and appliances	_____
Home and yard equipment	_____
Buying and/or cleaning rugs, carpets and draperies	_____
Fees or deposits for services (gas, electricity, water, phone)	_____
Miscellaneous	_____
Total	$_____

Your Future Monthly Housing Expenses

Use the right side of Chart I to estimate your future monthly housing expenses. If you are planning to rent and already have a place in mind, this should be relatively simple; you will not have the extra "hidden" costs that every homeowner soon becomes familiar with. Estimating ownership costs—the mortgage payment, property taxes and insurance, maintenance and repairs, utilities, special assessments, etc.—can be complicated, particularly if you don't own housing now.

Chart IV

PURCHASE COSTS

A. Costs associated with buying	**Estimated costs**
Moving costs	$_____
Down payment	_____
Utility deposits	_____
A reserve fund for the unexpected	_____
Legal fees	_____
Settlement costs	
Loan application fee	_____
Points	_____
Title search and insurance	_____
Commission	_____
Recording fees	_____
Deposit toward insurance, taxes and assessments	_____
Insurance	_____
Other	_____
Total	$_____

B. Additional costs if you build	**Estimated costs**
The lot	_____
Survey fees	_____
House plans	_____
Building permit	_____
Architect's fee (if any)	_____
Contractor's fee	_____
Liability insurance	_____
Inspection fees	_____
Landscaping	_____
Extra building costs	_____
Other	_____
Total	$_____
Total Cash Needs	$_____

Subtract your total cash needs from the cash you have available to see if you have enough to buy or build

Balance $_____

Once you know how much money, if any, you have left over each month to upgrade your housing, find out how much of a mortgage loan you qualify for, before doing any serious house hunting. Many lenders will give you, over the phone, ball park estimates of the maximum mortgage you can obtain and the maximum monthly payment involved. A highly qualified, experienced real estate agent who really knows the market can give you this information also, on the basis of your income. It will save you time, not to mention disappointment, if you confine your search to housing within a realistic price range.

After you have found housing you like, you will be able to fill in your future property taxes and insurance in Chart I. The present owner can show you recent utility bills but, if the residence is a new one, call the customer service departments of utility companies for estimates. If you haven't owned property before, you can probably also obtain estimates of maintenance and repair costs from your real estate agent, if he or she has been in the business for awhile. (They generally average two percent of the value of a house annually.) Be sure to adjust these figures upward if you are planning to enlarge the housing or make extensive repairs.

Add all these up and then see how the total compares to the amount you have available each month. Can you safely carry an additional financial load? Some leeway is essential because ownership costs are not stable and future salary increases aren't guaranteed! (U.S. readers: be sure to figure the *real* or after-tax interest rate you will have to pay on the mortgage—i.e., the interest rate less the income tax deduction it will provide.)

Housing Checklists

Since you will be paying for your mortgage with future income, your financial prospects—and the property's potential resale value—should definitely be considered when deciding how much housing to buy!

Your Cash Requirements

Even prospective renters must have some extra cash on hand when ready to move; those planning to buy or build will need much more.

When You Move

The costs connected with moving—apart from the actual move itself—usually include utility deposits, cleaning and decorating and at least some new furnishings, as well as repairs if you're buying an older dwelling. Fill out Chart III on page 6 and then calculate the total. Surprised? If you simply don't have enough cash to meet these expenses, make this one of your financial goals. Divide the amount you need by 12 to determine how much to set aside in your financial plan each month.

If You Buy or Build

If you plan to buy, enter your cash requirements in Chart IV, Section A, and total them up. Allow about five percent of your estimated mortgage loan for closing costs. How does the total balance with the amount of cash you can raise?

Building a house involves additional expenses. Fill out Section B if you are hoping to build, then add Total A and Total B together.

Checklist for Apartments

Building and Grounds

- ☐ attractive, well-constructed building with professional landscaping
- ☐ good maintenance and upkeep
- ☐ locked, secure entrances
- ☐ clean, well-lighted and uncluttered lobby, halls and stairs
- ☐ reliable building management and supervision

Services and Facilities

- ☐ laundry equipment
- ☐ adequate parking space (indoor or outdoor)
- ☐ locked mail boxes and receiving room for packages
- ☐ reliable and convenient trash collection and disposal
- ☐ accessible fire escapes
- ☐ storage lockers
- ☐ elevators
- ☐ engineer on call for emergency repairs
- ☐ extras—window washing, decorating, shops, doorman

Living Areas

- ☐ adequate room sizes and storage space
- ☐ convenient floor plan with good traffic pattern
- ☐ suitable wall space for furniture
- ☐ soundproof (Can you hear talking, footsteps, running water and the operation of equipment in other apartments and in hallways?)
- ☐ attractive decorating and fixtures
- ☐ pleasant views, good natural light
- ☐ agreeable size, type and number of windows, affording good ventilation
- ☐ windows equipped with blinds or shades, screens and storm windows
- ☐ easy upkeep, including attractive low-maintenance floors
- ☐ furnished appliances in good operating condition
- ☐ clean, effective heating, thermostatically controlled
- ☐ up-to-date and sufficient wiring
- ☐ an adequate number of electrical outlets, conveniently placed
- ☐ well-fitted doors, casings, cabinets and built-ins
- ☐ extras—air conditioning, carpeting, dishwasher, disposal, fireplace, patio

You cannot take all of the guesswork out of apartment and house hunting. No matter how carefully you investigate beforehand, there are bound to be some surprises—good and bad—after you move in. A careful analysis of your needs and wants can help, however.

As you go over the checklist for an apartment or a house, check the features you consider most important. Investigate these carefully as you conduct your search. If you plan to build, study several different house plans before making your final choice.

Checklist for Houses

House Exterior and Yard

- ☐ attractive, well-designed house
- ☐ in harmony with natural surroundings and neighboring houses
- ☐ lot of the right size and shape for house and garage
- ☐ desirable orientation on lot
- ☐ suitable use of building materials
- ☐ attractive landscaping and yard
- ☐ good drainage with dry, firm soil around the house
- ☐ mature, healthy trees, providing shade when needed
- ☐ well-kept driveway and walks
- ☐ patio, porch, deck or yard
- ☐ convenient parking—garage, carport or street
- ☐ enough distance between houses to afford privacy
- ☐ sheltered entry—well-lighted and large
- ☐ convenient service entrance with access to kitchen

Outside Construction

- ☐ durable siding materials in good condition
- ☐ solid brick and masonry free of cracks
- ☐ solid foundation walls, six inches above ground level, eight inches thick
- ☐ caulked and weather-stripped windows and doors
- ☐ noncorrosive gutters and downspouts, connected to storm sewer or splash block to carry water away from house
- ☐ copper or aluminum flashing used over doors, windows and joints on the roof

Inside Construction

- ☐ sound, smooth walls with invisible nails and taping on dry walls; without hollows or large cracks in plaster walls
- ☐ well-done carpentry work with properly fitted joints and moldings
- ☐ well-fitted, easy-to-operate windows
- ☐ level wood floors with smooth finish
- ☐ good possibilities for improvements, remodeling, expanding
- ☐ built-in cabinets with properly fitted and easy-to-work doors and drawers
- ☐ dry basement floor with hard smooth surface and adequate drain
- ☐ stairways with sturdy railings, adequate headroom, not too steep
- ☐ leakproof roof, in good condition
- ☐ adequate insulation for sound-proofing and year-round comfort

Living Space

- ☐ satisfactory floor plan
- ☐ attractive entry with foyer and closet
- ☐ work areas (kitchen, laundry, workshop) with adequate storage and counter space, lighting and electrical power
- ☐ bedrooms and bathrooms located far enough from other parts of the house to afford privacy and quiet
- ☐ inviting social areas (living, dining and family rooms, play space, yard, porch, deck or patio) spacious enough for family and guests
- ☐ certain rooms conveniently located: the foyer and living room, dining room and kitchen, bedrooms and baths
- ☐ adequate storage—closets, cabinets, shelves, attic, basement, garage
- ☐ rooms of sufficient size to accommodate furnishings
- ☐ agreeable size and type of windows, placed to provide sufficient light and ventilation
- ☐ attractive decorating and fixtures
- ☐ usable attic and/or basement space
- ☐ extras—fireplace, air conditioning, porches, new kitchen and baths, built-ins, skylights, deck

Renting

It pays to shop carefully for suitable rental housing, particularly if you have to sign a one- or two-year lease. Let your friends, relatives and colleagues know you are looking. Check classified ads in neighborhood newspapers. Call offices of apartment management, property management and licensed real estate firms, which can be found in the Yellow Pages under "Apartment Rentals." Check the bulletin boards of supermarkets in the area where you'd like to live. Conduct a foot search; some of the best rentals are advertised only through notices posted in front of a building or on the front door.

Fee-charging rental referral agencies are generally not recommended; their value is questionable. If you still wish to try this approach, first check with the Better Business Bureau to see if any complaints have been registered against the agency.

The Application and Deposits

Prospective renters usually have to fill out an application and pay an application fee. This holds the unit for you while your employment, credit and rental histories are being checked. Find out if the application fee will be returned if you are turned down.

If you are accepted, the landlord will probably present you with either a lease or an agreement to sign. A written agreement is shorter and less formal than a lease, and usually commits the renter to month-to-month tenancy. It also permits the landlord to change the amount of rent at will. Oral agreements offer little protection to either party, for they are difficult to enforce.

Utility deposits can sometimes add up to a fairly substantial amount of money. Find out...how long the companies keep the deposits...if they will earn interest...if they will be returned or credited to your account.

Security deposits, usually one month's rent, are earmarked for the repair of any damages you cause and for any cleaning required after you move. Inquire if you earn interest on the money and if you can eventually get it back.

The Lease

A lease is a written or verbal agreement between landlord and tenant. A written lease—dated and signed by both parties—is a legal document which binds landlord and tenant to the terms stated in the agreement. Before entering a lease agreement, find out what specific responsibilities and obligations you are assuming...what you may and may not do with the property...what the landlord will and will not do for you.

Practically every lease states the name and address of the landlord and the tenant, the amount of rent and how it is to be paid, the beginning and terminating dates of the rental, a description of the property. Other details vary from one landlord to the next. Read the lease carefully to find the answers to the following questions.

- **What is covered by the rent?** Are any utilities included? Are decorating, window washing or other services provided without charge? Is garage or parking space included in the rent?
- **Who is responsible for upkeep, repairs and maintenance?** In apartments the landlord is responsible for the building and major plumbing, electrical and structural repairs. Landlords usually assume less responsibility for houses. Find out what obligations you would have before you sign the lease.
- **How and when may the lease be terminated or renewed?** What notice must you give if you plan to move when the lease ends? Is the lease automatically renewed if you fail to give notice? How far in advance must you renew it? What notice will you receive if the landlord intends to change the terms of the lease or renewal?
- **What happens if you must move before the lease expires?** Can you sublet? Is there a fee for subletting? Ordinarily you must carry out the terms of the lease if the new tenant fails to do so, unless the landlord offers a lease to the new tenant. Can you have a clause written into the lease which cancels your responsibility if you are transferred before the lease expires?
- **What extra costs must you pay?** Is there a penalty for paying rent late? Must you make a security deposit? If so, how much and when is it returned? Can rent be increased before the lease expires? If so, by how much, and under what circumstances?
- **When may the landlord or employees enter your home?** A landlord has the right to inspect the property, and you have a right to set up reasonable conditions under which this can occur—i.e., an emergency that makes it necessary to enter without your permission.
- **What rules and regulations must tenants follow in using the property?** Can you decorate, keep pets, run a business, install carpeting or equipment? What rules govern the use of facilities in the building? Are the restrictions reasonable? Are they enforced?
- **Does the landlord have a lien on your personal property?** A landlord's lien permits him or her to hold furnishings and belongings until you fulfill your financial obligations.
- **Are all agreements with the landlord written into the lease?** Don't rely on verbal agreements. If the landlord makes promises that are not in the printed lease, ask that they be written and attached to the lease. This applies to promises such as the right to sublet...repairs on the property...allowances for decorating...responsibility for maintenance.

Warranty of Habitability

This standard of decent apartment living protects tenants in a majority of states and the District of Columbia. It is in effect throughout your tenancy. Failure of the landlord to provide essential services that affect health and safety violates the warranty, even for tenants without leases. Those who believe the Warranty of Habitability* is being violated should let the landlord know the reasons *in writing*. Although withholding rent is the most common legal remedy for a breach of warranty, consult a lawyer before doing so.

*In Canada, the Maintenance and Occupancy Bylaw protects the health and safety of tenants in a similar way.

What Kind of Housing Will You Buy?

By this time you should know your needs and wants and have a good idea of what you can afford to spend. You've probably also decided if your new residence is to be an apartment, townhouse, duplex, or detached single-family house.

Each of these types has its own set of advantages and disadvantages. As you look for housing, keep in mind that... you probably will not find everything you want... there is no perfect housing... each dwelling has its advantages and disadvantages.

Look for a desirable location first, because it involves so many factors that affect our quality of living...a particular kind of neighborhood and the community of which it is a part...an economic and social atmosphere...a local government...taxes...public transportation, schools and churches, shopping and recreational facilities (or their lack)...zoning ordinances and building codes. Location, in other words, has a great influence on a house's desirability and price, not to mention its marketability!

Condominiums

Condos are actually *ownership arrangements* that involve single units in multi-unit buildings. They offer the convenience of apartment living and the financial advantages of owning a single-family house, but for the most part cost less both to buy and maintain, especially in large cities and resort areas. A condo owner shares the ownership of the common areas in the building and on the property—halls, stairs, lobbies, equipment and grounds.

A condo buyer can get regular mortgage financing but the process is more complicated than when buying single-family housing, so legal advice is critical. If possible, engage a real estate lawyer who is experienced in handling condo purchases to help you.

As a condominium owner you would hold legal title to your individual unit, which could be an apartment, duplex or townhouse. You arrange for your own mortgage and pay your own taxes, and generally have the right to refinance, sell and remodel the inside. You can also rent your unit, although this is often subject to the approval of the condominium association. The costs of maintaining the common areas are shared on a proportionate basis by all the owners, who pay a monthly maintenance fee. Condo ownership involves community living and the sharing of property with others, which means that you usually have less privacy and freedom than do owners of detached housing.

You also vote on a board of managers to supervise the property according to bylaws in the legal description of the property. While you have the responsibility to participate in the condominium government, you do not have the final say. All residents are bound by the board decisions, even when they disagree with them.

Before buying a condo:

- Thoroughly investigate the reputation of the developer—through local real estate brokers, banks, or the Better Business Bureau—whether the building is brand new, under construction, or being converted.
- Read the rules of the organization.
- Investigate the condo government association, the restrictions on condo owners and the quality of the property management.
- Check the construction of the building and its physical condition. If the building is being converted to condos, ask to see an independent inspection firm's report on the building's condition.
- Insist that any future changes in the building be put in writing.
- Query the occupants to see if they are satisfied with the living conditions.
- Determine how many units are rented. Generally, owner-occupied units are better maintained.
- Determine if there is sufficient parking space.
- Watch for unusually low maintenance fees that will probably have to be increased soon.
- Consider the resale value.
- Compare the projected monthly assessment fees with those on similar buildings already in operation.

Townhouses are often sold as condos, as are duplexes. The *townhouse* is an individually owned home with its own front and back yards but common sidewalls. A *duplex* is a double house, with one-family units placed either side by side or one above the other. In both of these types of dwellings the land, windows, insulation, foundation, roof, walls, etc., cost less than in comparable detached housing. Maintenance and heating costs are also less.

Before buying a townhouse or duplex, check on the soundproofing of shared walls, the restrictions on altering exteriors, the parking facilities, the amount of privacy you'll have, and the estimated resale value. Find out who owns or lives in the adjoining unit or units, since the occupants would be your close neighbors.

Single-Family Housing—New and Resale

The new or previously owned house you are looking for could be free-standing (detached) or a townhouse. The checklist on page 9 can help you evaluate and compare the different possibilities.

Previously Owned Houses

Existing homes are usually available in a wide variety of styles, conditions, prices and locations. They are often located in established neighborhoods, are already landscaped, and their value can be quite readily determined.

On the other hand, the interiors may need refurbishing, the major housing components often require repairs or improvements, the upkeep is generally greater, and such amenities as modern heating and cooling equipment may be lacking. In addition, mortgages may be harder to get on previously owned houses than on new ones.

Warranty protection against any unknown material defects in the basic structure or functional components of an existing home helps to minimize possible losses for both the buyer and seller. There are two types of home protection warranties: the inspection and noninspection plans. If you are interested in a program or plan that will provide a limited one-year warranty, check with your state department of insurance and/or state real estate commission for names of firms doing business in your area.

New Houses

New houses have several advantages over previously owned homes. You often have a choice of plans, financing is generally easier to obtain, the building materials and methods are up to date, and the fixtures and equipment brand new. The roof and heating systems are usually under warranty and maintenance costs are lower. Operating costs, on the other hand, can only be estimated, and the buyer will usually have to pay for landscaping, window treatments and some appliances.

In housing developments and subdivisions, the plans, building costs and lot are usually included in one total price. The house may come as is or with a choice of outside finishes, room arrangements and decorations. Find out exactly what comes with the house and what is extra. Check on the warranties and the builder's reputation for fulfilling the terms of the warranties with others who have bought from him or her. Investigate the plans for the entire area as well as for those of your chosen home.

Custom-Built Homes

Building a custom-designed home is not only a more complicated procedure than buying an existing house or new one in a standard design, it usually is more costly as well. Furthermore, you may not be able to accurately predict what the total costs will be.

The home-building process first of all requires the locating of a suitable lot, which involves the investigation of many factors. Then you must choose the type of house you want to build...obtain plans and specifications...judge the design on the basis of sketches and blueprints...hire an architect and/or contractor...select materials and fixtures...arrange adequate financing...plan and pay for landscaping. To finance a custom-built house, you have to take out a construction loan. This is replaced by regular financing when the building has been completed.

There are three basic ways to build a house:

- **Buy a stock plan and hire a contractor to build from it.** If you do this, be sure that...the specifications in it are complete... the plan suits your lot and your needs...the completed structure conforms to local building codes and zoning laws...the financing you need is available. You may want to hire an architect to check the plans before you start to build.
- **Buy a shell house and complete it yourself or hire a contractor to do so.** A shell house is sold unfinished—to be completed by the buyer. This usually costs less than building from scratch, even if you require professional help. Conceivably you could save as much as 50 percent in labor costs if you do the work yourself. Financing could be difficult to obtain, however. Before buying a shell house, know . . . what materials and finished parts you will receive . . . what materials, tools and skills are required to complete the house . . . what financing arrangements are available.
- **Hire an architect to design a house for you.** Architects are trained to design new homes and remodel or improve existing homes. Their services range from preliminary sketches to supervision of the construction, depending upon your agreement with him or her. Often they choose building materials, find a suitable lot and hire a contractor. Usually they supervise the construction.

Meet with several different architects to discuss your needs. Look at some of the homes they have designed, inside and out, if possible. Talk to some of their previous clients. Find out the charge and when the work could begin. Do not ask for sketches unless you are willing to pay for them.

The contractor accepts the primary responsibility for building your house according to the plans and terms stated in the contract. He or she orders and pays for materials, schedules delivery and hires subcontractors.

Try to find one who...follows house plans to the letter...is known for high-quality workmanship and the use of high-quality materials...maintains high standards of integrity...handles financial matters competently. Check the contractor's reputation with former customers or the Better Business Bureau.

When you have settled on the home you want to build, ask a lawyer to inspect or draw up the necessary contracts and agreements. Be sure you understand all the provisions!

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Factory-Built Housing

There's been a great surge in demand for prefabricated or factory-built housing, which includes modular, panelized, precut, manufactured, log and dome homes. Today even on-site houses include a number of prefabricated parts like prehung doors and windows. The principal advantages to prefabricated housing, because of factory automation and assembly methods, are the high quality of the product and shorter construction time plus, in many cases, lower housing costs. (Transportation and shipping costs can offset these savings, however, and it should be noted that factory-built housing comes in many styles and prices, including luxury class modular homes that have up to 10 rooms and sell for as much as $1,000,000.)

Before purchasing a factory-built house, you must find out if local building codes and zoning laws permit them . . . if financing is available . . . how the house compares with other types in cost, materials, workmanship and design . . . and what the quoted price includes. The most popular types of factory-built housing are the modular, the panelized package house and manufactured houses.

A *modular* house consists of factory-manufactured, standard living-unit sections that leave the factory 95 percent complete. Two or more sections, 12 or 14 feet wide, and up to 60 feet long, are joined to create the finished building. The "wet" modules include plumbing, heating, bath and kitchen equipment and the "dry" modules consist of bedrooms, living rooms and dining rooms. You can choose the sections that will best suit your housing requirements. Final plumbing, electricity and foundation connections are made at the permanent site. Modular houses are usually financed in the same ways as conventional homes.

Panelized homes are designed for immediate installation at the permanent site, and with the addition of a roof can be completely assembled in a few days by a franchised dealer. There are two types of panelized systems—open wall and closed wall. Open walls consist of exterior sheathing only, and plumbing, wiring, insulation and interior sheathing are installed on-site. Closed wall systems are built as complete units at the factory, with insulation installed and electrical and plumbing systems prepared for easy connection at the site.

Franchised dealers often carry several lines of factory-built housing. They prepare the site and put the parts together. The installation is usually completed three to four days after the site is ready.

Manufactured homes are single-family houses built to federal construction and safety standards—the only national building code—and shipped substantially complete from the factory on built-in transportation frames.

Most new manufactured homes are sold with major appliances, carpet and draperies included in the price. Furniture packages are available, as are amenities such as fireplaces, cathedral ceilings, whirlpool tubs, walk-in closets and designer kitchens.

Retail prices for the house itself—without land—range from $8,400 to $70,000, according to the U.S. Department of Commerce, and generally include transportation and installation on the homesite.

Today, most manufactured homes are placed on individually owned private lots. They can be sited on a basement, slab or perimeter foundation or can be placed on piers and anchored, using systems required by federal rules to be built into the home.

Buyers planning to locate their manufactured home in a residential neighborhood should check local zoning regulations. Buyers planning to put their home in a rental community, where the lot is leased, should check community rules and regulations and talk with current residents.

There are two ways to finance a manufactured home—as real estate, with land, or as personal property, without land. Conventional and government-backed financing is available for both real estate and personal property purchases. FHA, VA and the Farmers Home Administration have programs.

New-House Warranties

If you're interested in buying new housing that comes with a written warranty, you must find a builder who offers them. There are essentially two kinds—*one-year builder-backed warranties* which constitute approximately two-thirds of them, and *insured 10-year warranties* offered by independent companies like the Home Owners Warranty Program (HOW), for example. Builders are accepted into the insured warranty programs only after they have been screened for technical competence and financial stability.

Typically, in the first year, the builder warrants the home to be free from defects in workmanship and materials in compliance with program standards. In the second year the warranty may continue to protect against major structural defects and defects in the wiring, pipes and ductwork. In years three through ten the builder carries insurance for the benefit of the homeowner against major structural defects. The warranties are transferable to the next owner during the 10-year period.

Ask the builder to show you the warranty/insurance documents.

Professionals Who Can Help

Buying or building a home is one of the biggest and most important expenditures of a lifetime, but few of us become experts at the process. Wise home buyers, therefore, usually turn to professionals—a real estate agent, lawyer, appraiser and home inspector—for help at this time. They can provide extremely useful services.

Real Estate Professionals

Real estate professionals, who include brokers and agents, serve both buyers and sellers. A *broker* is licensed to conduct a real estate business. His or her principal task is to act as an intermediary, working out all the details of a real estate transaction for a commission paid by the seller. Brokers are subject to state and provincial laws, licensing requirements and disciplinary procedures. They probably can provide more useful information to a prospective buyer than any other single source, but it is important to remember that they are agents of sellers.

A *Realtor* is a real estate professional who belongs to the National Association of Realtors and subscribes to its strict code of ethics. In Canada, "Realtor" does not denote a person but a standard of service. It is reserved exclusively for use by those who belong to and meet the standards of The Canadian Real Estate Association (CREA).

Realtors are not only real estate brokers; they may also be counselors, developers, managers and sales agents. An *agent* is a salesperson who has passed a state examination and is licensed to work for a real estate broker. Most agents work for sellers and are paid by commission.

Buyers' agents are a new phenomenon. Unlike brokers engaged by sellers, they are not duty-bound to negotiate the highest selling price, and do not benefit in proportion to it. A buyers' agent is hired to locate desirable real estate for a set fee, an hourly wage or a commission. Sometimes fees are negotiated between the two brokers involved. Before engaging a buyer's agent, ask your lawyer to check over the terms of the agreement with him or her.

A qualified real estate professional can help the prospective housing buyer by:

- exposing him or her to many housing possibilities via multiple listings, often on a computer.
- providing general information about communities, schools, shopping, taxes, etc.

- lining up other professionals when needed.
- seeking a suitable middle ground for both buyer and seller.
- giving estimates of down payments, points, property taxes, closing costs, etc.
- packaging creative financing deals acceptable to all concerned.

Lawyer

In order to protect your legal rights as well as your large investment, it is advisable to engage a lawyer before signing the purchase contract and paying earnest money. A lawyer can... check out the title...investigate covenants, restrictions and easements... determine the tax situation...check out the mechanics of the transaction...help negotiate a mortgage...insure that you will get any extras you bought with the house.

Ask a friend or professional dealing in real estate matters—a broker or loan officer, perhaps—to recommend a lawyer, then determine if he or she has handled real estate cases in your area. Those who specialize in other kinds of law may not do as well by you. It is important to ask the fee in advance, and feel free to shop around for a lawyer with whom you are comfortable and whom you can afford. Any lawyer should be willing to provide fee information at the first meeting, before you hire him or her.

Real Estate Appraiser

Buyers and sellers engage appraisers for the same reason: each wants to know the fair market value of a piece of property. This information will enable the seller to charge a realistic price; it will tell the buyer if the asking price is reasonable.

Try to hire a certified appraiser. Ask your real estate professional or lender for a recommendation, or check the Yellow Pages under "Real Estate Appraisers." Fees vary considerably, If you want a simple evaluation, an oral report may suffice, and it will probably cost less than a written report.

Home Inspector

One of the most important statements in the purchase agreement is that the contract can be revoked or altered if a home inspection and evaluation by a professional home inspector reveal that the condition of the housing is not satisfactory to the buyer. A good inspector will be able to objectively pinpoint a home's major defects, to explain their causes and offer solutions. This kind of information can help you determine your best course of action: to try to renegotiate the price, go ahead with the purchase or back out.

All members of the American Society of Home Inspectors (ASHI) must subscribe to the association's strict code of ethics, which guarantees that the home buyer's rights will always be upheld. The costs vary from city to city and from one house to the next, so it is best to check these out with a local ASHI member. They are listed in the Yellow Pages under "Building Inspection Services."

Purchase Arrangements

Once you've found housing you like within your price range, it's time to get the buying process under way: deciding on a bid, tendering a written purchase contract, and bargaining if necessary. After the contract has been accepted and signed by both parties and the financial arrangements (see page 19) are being made, the title search can be conducted and the title insurance arranged. Last of all is the closing or settlement.

The Purchase Contract

Most people are uncomfortable in the bargaining role but this is an accepted part of the home-buying process; sellers invariably ask for more than they expect to get. Is the selling price "firm"? It might help you to find out what the owner paid for the dwelling, which can be easily checked since the deed is a public document. Take inflation into account also. If you're still uncertain of the amount to bid, an appraiser can be a great help. Bear in mind, however, that if the property is an especially good buy, a delay could mean losing out.

Once you have decided upon your offering price, it's time to sign the legally binding agreement that commits you to buy—at a given price and under certain terms. This contract should be drawn up by or at least carefully examined by an attorney before you sign. At that time you will make a deposit as proof of your intention to buy. This is usually applied to the down payment or your share of the closing costs, but in the meantime it is placed in escrow until closing. Be sure to state that it be placed in an account that pays interest. (Escrow refers to a neutral third party who keeps the money until specified conditions are met.) If the sale falls through, the deposit will either be kept by the seller or returned to you, depending on the terms of your purchase contract.

The seller has to give you a decision within the time spelled out in the contract. If he or she turns it down, you may want to raise your offer with a second or third purchase contract. Negotiations continue until you and the seller reach agreement.

Purchase contracts usually include the following:

- the amount of deposit
- the purchase price, down payment and type of financing
- a description of the property and other items being sold with the house
- the fees to be paid and who will pay them
- the settlement date
- the conditions under which you can void the contract without penalty, such as: 1) the failure to sell your house; 2) your inability to obtain financing at an agreed-upon interest rate, with your deposit being returned if you cannot; 3) an unsatisfactory inspection report on the property by a professional home inspector; 4) failure to obtain an insurable and marketable title

If you are borrowing money to buy or build, be sure to obtain some preliminary information on financing before signing a contract. Allow yourself at least 60 days for the financing arrangements to go through.

Title Search, Title Insurance and Deed

A title to a piece of property is evidence of ownership; it is transferred to the buyer during the closing by means of a written document called a *deed.* The deed does not, however, show who else may have rights to the property—through a mortgage, a judgment, mechanic's lien, unpaid taxes, etc.—nor does a deed change these rights in any way. A lending institution will thus require proof that title to the property is clear before it will grant a loan.

To determine ownership of property, a search of public records is made—sometimes by a lawyer and other times by a title insurance company that not only searches for the title records but also issues the *title insurance policy.*

This insurance policy guarantees that the owner will not suffer a loss from specified defects or liens that might turn up. Know the specific coverage of the title insurance policy you purchase! Unlike other types of insurance, the premium is paid only once—at the time the policy is granted.

All states have laws relating to the filing and recording of real estate deeds and mortgages. It is to your advantage to have the deed or mortgage recorded immediately with the County Recorder, Recorder of Deeds, or the Registrar of Titles.

Read more on the closing process in **Financing Your Purchase,** which follows. Although financing properly belongs with purchase arrangements, the subject is so complex that it requires a section of its own.

Financing Your Purchase

You will have to finance the major portion of your new housing with a mortgage, unless you're among the very few who can pay cash for it. To help you handle the financing arrangements intelligently, we want to acquaint you with the terms it is important to know, the procedures to follow, the basics of the **Consumer Credit Protection Act** and the types of financing available. This section also includes a brief discussion of home financing in Canada.

Financing Arrangements

Making financial arrangements is the single most important part of the buying process, but it may not be easy—there are so many different ways to do so today. Finding ideal housing could be easier than finding the ideal financing!

Important Terms

A *mortgage* is popularly regarded as a loan for purchasing property. In actuality it is the legal document you must sign that obliges you to repay the loan, typically in specified installments within a specified period. The property you buy is pledged as security. The *principal* is the amount of money you borrow from the lender; *interest* is the price you pay for the use of it.

Typical monthly payments will include the interest and at least some payment on the principal, and frequently a portion of your property taxes and hazard insurance, your mortgage insurance (if you have it) and special assessments. The lender puts this money into *escrow*—i.e., a kind of trust account—until the various bills come due. Some lenders pay interest on this money. Borrowers who prefer to handle these payments themselves can try to negotiate this point, but today many lenders require escrow accounts.

By means of these monthly payments on the principal you gradually increase your *equity*—the difference between the value of your home and the amount owed to the lender. The process of paying off your mortgage and gradually reducing your debt is called *amortization.* Other financing terms you should know include *points*, which are really a loan fee paid at the time of closing. Each point equals one percent of the total mortgage, but the number of points charged varies from one lender to the next, so it is wise to shop around.

Points may either be included in the loan principal or paid in cash at the closing. Be sure to find out how this will be handled. It is also important to know that points can sometimes be deducted from your income tax, so check this out with a tax advisor or the Internal Revenue Service.

Mortgage insurance protects the lender from loss due to payment default by the buyer and is generally required when the down payment is lower than 20 percent. The *prepayment privilege* allows the borrower to repay all or part of the mortgage in advance without penalty. The *due-on-sale clause* provides that the loan balance must be paid off if the home is sold.

The *settlement* or *closing* is the meeting at which the transfer of ownership takes place.

The Overall Procedure

Find out the kinds and costs of the mortgages being made by at least two or three traditional lenders. (For the different types of mortgages available, see page 21.) Fill out an application at the one offering the financing that best fits your needs. Lenders consider the following factors before granting a loan: income, assets, debts, employment history and credit history—as well as the location, construction and condition of the housing to be purchased.

In the U.S., in order to comply with the **Real Estate Settlement Procedures Act** (RESPA), a lender must give you a booklet that explains the settlement process within three business days after you apply for a mortgage. Also within those three days the lender must provide you with a Truth-in-Lending disclosure statement, containing information about the loan and a "good-faith" estimate of the closing costs. Some closing costs are fixed while others can be negotiated, so the "good-faith" estimate will enable you to compare these when shopping for financing. The disclosure statement also estimates how much the mortgage will cost, which is expressed as a percentage of the amount financed—the *APR* or *annual percentage rate*—and as a total finance charge. This will better enable you to compare financing costs.

Those applying for an adjustable rate mortgage (ARM) will generally receive a disclosure form. This should include an explanation of the index that will be used to adjust the interest rate, an explanation of the ways that the interest-rate changes will be implemented, the frequency with which this will happen, and an example of the way the ARM will work.

The interest you pay can make a sizable difference in the total cost of a mortgage. Keep in mind, though, that the lowest loan rate doesn't automatically mean the best deal. The points you pay and the length of the repayment period also affect the total cost of a given amount of credit. Five to ten years' difference can cost you several thousand dollars. You can also save money on interest charges by making a large down payment and by paying off your loan in the shortest possible time. (See the charts on this page.) Be sure to compare *all* fees and charges when you mortgage-shop! It ordinarily takes four weeks—sometimes longer when housing activity is strong—to get a decision on your mortgage application.

The following charts will give you an idea of the costs of home mortgage loans today.

MONTHLY PAYMENTS* AND TOTAL INTEREST CHARGES FOR A 30-YEAR $66,000 MORTGAGE LOAN AT DIFFERENT INTEREST RATES

Interest Rates (Expressed As An Annual Percentage Rate)	Monthly Payment	Total Interest Charges (Over 30 Years)
10.00%	$579.20	$142,512.00
11.00%	628.53	160,270.80
11.50%	653.59	169,292.40
12.00%	678.88	178,396.80
12.50%	704.39	187,580.40
13.00%	730.09	196,832.40

MONTHLY PAYMENTS* AND TOTAL INTEREST CHARGES FOR A $66,000 MORTGAGE LOAN BORROWED AT 10%,11% AND 12% WITH DIFFERENT REPAYMENT PERIODS

	10% Interest, Expressed As An Annual Percentage Rate		11% Interest, Expressed As An Annual Percentage Rate		12% Interest, Expressed As An Annual Percentage Rate	
Repayment Period	Monthly Payment	Total Interest Charge	Monthly Payment	Total Interest Charge	Monthly Payment	Total Interest Charge
15 Years	$709.24	$ 61,663.20	$750.15	$ 69,027.00	$792.11	$ 76,579.80
20 Years	636.91	86,858.40	681.24	97,497.60	726.72	108,412.80
25 Years	599.74	113,922.00	646.87	128,061.00	695.13	142,539.00
30 Years	579.20	142,512.00	628.53	160,270.80	678.88	178,396.80

*Monthly payment figures shown include only principal and the interest charge—actual payments may also include taxes and insurance.

One day before the closing you should have the right to inspect the original settlement statement, on which should be itemized most if not all of the fees incurred in the process of obtaining financing and transferring the property.

The statement includes the exact amount of each monthly payment and the exact closing costs that you and the seller have agreed to pay—the fees for the property appraisal, title examination and insurance, the property insurance and taxes, the points, initial interest payment and several additional charges. You must make arrangements for payment of these costs at the closing—probably in the form of a cashier's check. If your purchase is contingent upon the selling of your previous home, delay the closing for the new house until the closing for the old one has taken place. Before going to the closing, inspect the dwelling to be sure the seller did what was promised.

Credit Legislation

In the United States, the **Consumer Credit Protection Act*** covers all real estate credit extended to an individual for purposes other than business or agricultural. For a first mortgage to purchase or construct a residence, the law requires that creditors disclose finance charges as a dollar amount and an annual percentage rate (APR). This rate is the yearly cost of the loan expressed as a percentage. When figuring the APR, loan closing fees (except those generally paid to third parties), and points must be included along with interest as part of the cost.

The Equal Credit Opportunity Act prohibits credit discrimination based on sex and marital status, race, national origin, religion, age or the receipt of public assistance.

*In Canada, the Interest Act and provincial real estate and consumer protection legislation apply to mortgages.

Financing From Traditional Lenders

Traditional sources of mortgage loans in the U.S. include savings and loan associations (S&Ls), cooperative banks (in New England), federal savings banks, mutual savings banks, mortgage bankers, and some commercial banks and credit unions. (See page 23 for home financing in Canada.) It is wise to begin your search for financing with one of these lenders. In each bank, S&L and credit union there should be a list of the types of loans they make.

The basic kinds of financing arrangements available today from traditional lenders include fixed-rate, long-term mortgages; VA-guaranteed, FHA-insured mortgages and FmHA mortgages; and adjustable mortgage loans.

Fixed-Rate Mortgages

For years traditional lenders have provided the simple low-cost, fixed-rate, long-term mortgages (FRMs) with equal monthly payments that have enabled so many Americans and Canadians to become homeowners. FRMs may be harder to get during inflationary periods, because lenders fear being locked into an interest rate several percentage points lower than the rate of inflation. It can also be harder to qualify for FRMs when interest rates are high, because they make the financing more expensive. As a result, lenders have come up with variations of the fixed-rate mortgage, four of which are described below.

- **Blend mortgages** involve a blending of the seller's old mortgage with the buyer's new one, which results in an interest rate somewhere between the original and prevailing rates. The borrower must take out a mortgage loan from the lender who holds the seller's mortgage, however. Blend mortgages sometimes have variable instead of fixed interest rates.

- **A graduated-payment mortgage (GPM),** matches monthly payments with a family's presumably increasing income. The payments start out low and rise gradually, leveling off and remaining steady for the balance of the mortgage term. The principal of the loan actually increases in the first few years, because the monthly payments are less than the amount of interest owed. A GPM is designed primarily for first-time buyers, usually young, who expect their incomes to grow.

  Although the payments will increase, they have the security of knowing exactly how much they will be.

- **A 15-year fixed rate mortgage** enables you to build equity much faster than you would with a 30-year mortgage, and the interest rate generally will be a quarter to a half percent lower. Your interest costs will be cut in half over the mortgage term.

  You'll need a larger income to qualify for a 15-year mortgage, however, so you may either have to make a larger down payment or buy a lower-priced home than you'd planned on.

- **A biweekly mortgage** splits the conventional monthly payment in two. You thus pay every two weeks or 26 times a year instead of 12, and in the process shorten your loan term from 30 to 19 or 20 years. And, because you're building equity nearly twice as fast, you'll save thousands of dollars in interest on a $75,000 10 percent loan, for example. You don't like the idea of writing twice as many checks? Arrange for automatic deductions from your checking account.

Government-backed mortgages—FHA, VA and **FmHA**—are largely financed by mortgage bankers. FHA and FmHA are insured by the Federal Housing Authority and the Farm Home Administration, respectively. VA mortgages are guaranteed by the Veteran's Administration. Applicants apply to a private lender, however, not to these government agencies. Federal regulations restrict the number of points that can be paid by the buyer, but not by the seller. VA and FHA mortgages usually take longer to process than other kinds. A brief description of these follow, but for additional information, contact the nearest FHA, VA or FmHA office.

- **FHA-Insured mortgages** are insured against the buyer's possible default. The rates are negotiated by lender and borrower. The term is usually 30 years and the down payment is low. There is no prepayment penalty. There is a charge for the insurance premium: one-half of one percent of the average mortgage balance outstanding for the year, which is a bit more than the cost of private mortgage insurance. Anyone may apply for an FHA mortgage.
- **VA-guaranteed mortgages,** available to eligible veterans of the U.S. Armed Forces and their unmarried surviving spouses, offer a guarantee of repayment to the lender. The down payment and interest rate (set by the VA) are lower than with conventional loans, and it is possible that no down payment at all will be needed. Borrowers have up to 30 years to repay. Under certain circumstances the VA will make direct loans. The VA also guarantees the GEM mortgage wherever it is offered. Eligibility rules are available at VA offices.
- **FmHA mortgages** are available to qualified people from rural areas and small towns who can make regular monthly mortgage payments but cannot get a mortgage from private lenders at an affordable rate. The down payment on FmHA mortgages is usually small and interest rates low. Make any inquiries about a FmHA loan to any county or district office of the Farm Home Administration. The loans obtained directly from these offices are called "insured" loans; the FmHA loans obtained from commercial lenders are called "guaranteed."

Adjustable Rate Mortgages

A wide variety of custom-tailored mortgages, grouped under the heading of Adjustable Rate Mortgages, are more popular during periods of high interest rates, when mortgage money is scarce. With an ARM, the interest rate rises and falls in tandem with a public index of interest rates, selected by the lender. This can produce additional changes: in the amount of the principal, the monthly payment, the length of the mortgage term, or a combination of these.

ARMs superseded several mortgages—the renegotiable and variable rate among others. These types can still be made, but lenders now go well beyond them, tailoring the terms to the particular needs and wants of each buyer. At one time there were literally dozens of possibilities, each one offering the buyer something unique.

The interest rate on an ARM often is one to two percentage points lower than that charged for a fixed-rate mortgage and, depending on its terms, the borrower may arrange new financing and prepay the loan without penalty at the time of adjustments.

Here are just a few of the features that might be incorporated into an ARM contract:

- The interest rate may be adjusted during each year or multiple years, but monthly payments remain constant typically for one year. Any resulting deficit is added to the loan and its term is extended. If the rate falls, the principal is paid off faster.
- The interest rate is held steady for a specified period of time, then changed to the current interest rate.
- The monthly payment in the beginning does not cover the repayment of the principal and interest, so the loan balance increases monthly as a result. This is called *negative amortization.*
- There are caps on the interest rate and/or the payment. These arrangements generally carry a higher interest rate.
- The mortgage can be refinanced.
- A portability clause permits the buyer to use the mortgage for the purchase of another home.

Seller Financing

"Creative financing" is the term usually applied to any financing arrangements that bypass traditional lending institutions, particularly those made with sellers. Seek the assistance of a qualified real estate professional and a capable real estate lawyer before negotiating these arrangements, because seller financing is not for do-it-yourselfers! There are four basic types.

Installment Sales Contract

This is the most popular form of creative financing. The contract states the amount of the down payment, the length of the contract, and the payment on principal and interest to be made by the buyer. It should also state what should be done about taxes and insurance. Under this arrangement,

the buyer makes a down payment and monthly payments to the seller, who continues to hold title to the property until the terms of the contract are met. (The deed should be placed in escrow at a title insurance company when the transaction is closed.) After a specified period, the buyer refinances and pays the seller the remainder of the balance. Many contract deals are intertwined with short-term balloon financing. Sometimes the seller will sell the contract at a discount to an investor.

A Balloon Mortgage

These call for fixed monthly payments for a short period of time—usually three to five years—after which the remaining balance must be paid off in one big installment or refinanced with a new loan. The problem is that the borrower may have to refinance at a higher rate. It is important to draft an agreement that requires the buyer simply to make a good-faith effort to obtain a mortgage under specific terms when the balloon bursts. The seller should protect himself, too, by putting a stipulation in the contract that the buyer must refinance if interest rates drop. (Balloon mortgages are also available from some traditional lenders.)

Mortgage Assumption

This is the simplest, cheapest form of seller financing; it occurs when the buyer takes over the existing mortgage at the old interest rate. Should the mortgage have a due-on-sale clause, this is not allowed, but there are no such clauses in a VA or FHA loan. Generally, the lender must give permission before a mortgage is assumed and may charge an assumption fee.

Because housing prices soared in the past decade, a buyer usually has to make a large down payment and obtain additional financing when taking over the seller's mortgage. The latter will frequently help out at this point with a second mortgage, in order to complete the necessary financing.

Second Mortgage

This is a junior lien, secured by property already securing a first mortgage. Second mortgages are available from traditional lenders, but a seller sometimes will provide one for a buyer whose down payment will not cover the difference between the first mortgage and the selling price, or when an existing first mortgage can be assumed by the buyer. He or she receives legal title to the property and the lender obtains a secondary claim which can be enforced only after the first mortgage is paid in full. If the borrower pays on the first mortgage but defaults on the second, however, the holder of the second mortgage can foreclose. Interest charges on second mortgages are generally higher because of the risk to the lender.

The second mortgage can be used for additional financing *if* the holder of the first mortgage will permit secondary financing and *if* the borrower can handle two mortgage payments. Other factors a buyer should analyze before taking on a second mortgage are the existing economic conditions, the current and projected interest rates, and his or her future financial security.

A seller who provides a second mortgage usually agrees to accept final payment on the housing within three to five years, generally at less than the market interest rates. Many seller-held mortgages involve balloon payments. (Second mortgages are also provided by conventional lenders under a variety of terms and conditions.) They are usually not permitted on FHA or VA mortgages or on conventional mortgages that carry private mortgage insurance.

Home Financing in Canada

In Canada, home financing is available primarily from trust companies, loan companies and chartered banks, as well as from credit unions, mortgage companies, and life insurance companies. In Quebec, savings banks also grant mortgage loans. The majority of mortgages now made in Canada are rollover—i.e., the interest rates are renegotiated after an agreed-upon length of time—anywhere from six months to five years.

There are several different types of mortgages in addition to the standard ones: the equal payment mortgage (EPM); the graduated payment mortgage (GPM); the variable rate mortgage (VRM); and the interest prepayment option, in which a lump sum paid at the time of purchase is applied to the interest due on an EPM for the next three years. This enables the lender to lower the interest rate and thus the payments for that length of time.

Mortgages in Canada are also categorized as conventional (uninsured) and high ratio (insured). Uninsured mortgages ordinarily require a down payment equal to 25 percent of the value of the housing, while in high ratio mortgages the down payment may be as low as 10 percent of the selling price. The latter may be insured by the only private company in Canada in this field, the Mortgage Insurance Company of Canada, or by the Canada Mortgage and Housing Corporation (CMHC), under provisions of the National Housing Act. CMHC loans are available through NHA-approved lenders.

The general rule of thumb used by lenders in Canada is that annual payments—for the mortgage, municipal taxes and such operating costs as electricity, heating and maintenance—should not exceed 32 percent of your annual income. Interest rates and other mortgage conditions vary from lender to lender and are negotiable, so shop around carefully.

Insurance

Basic	Broad	Comprehensive	Perils Against Which Properties are Insured
■	■	■	1. fire or lightning
■	■	■	2. loss of property removed from premises endangered by fire or other perils
■	■	■	3. windstorm or hail
■	■	■	4. explosion
■	■	■	5. riot or civil commotion
■	■	■	6. aircraft
■	■	■	7. vehicles
■	■	■	8. smoke
■	■	■	9. vandalism and malicious mischief
■	■	■	10. theft
■			11. breakage of glass constituting a part of the building (not included in the Tenants Form)
	■	■	12. falling objects
	■	■	13. weight of ice, snow, sleet
	■	■	14. collapse of building(s) or any part thereof
	■	■	15. sudden and accidental tearing asunder, cracking, burning, or bulging of a steam or hot water heating system or of appliances for heating water
	■	■	16. accidental discharge, leakage or overflow of water or steam from within a plumbing, heating, or air-conditioning system or domestic appliance
	■	■	17. freezing of plumbing, heating and air-conditioning systems and domestic appliances
	■	■	18. sudden and accidental injury from artificially-generated currents to electrical appliances, devices, fixtures and wiring (TV and radio tubes not included)
		■	All perils except flood, earthquake, war, nuclear accident and others specified in your policy. Check your policy for a complete listing of perils excluded.

Chart reprinted with the courtesy of Insurance Information Institute, 110 William Street, New York, New York 10038.

Homeowners insurance is a necessity because your investment in housing will probably be the most important one you'll ever make. You will want to protect yourself from damages and loss. The cost of insuring your dwelling and possessions will depend on:

- the value of your property
- the type and amount of coverage you buy
- the insurance rates in your area

Shop carefully for homeowners insurance! You may be able to save up to 25 percent on costs. A qualified insurance agent can help you decide the kind and amount of coverage you need and what it will cost. Buy it from a reputable company and deal with a reliable broker or agent who lives in your area and can give prompt service on claims.

There are two different types of agents: *direct writers*, who work for only one insurance company, and *independent agents*, who represent the buyer, not an insurance company, and offer up to two dozen policies from as many different companies.

The Homeowners Policy

A homeowners insurance policy* protects property owners *and* renters in a standard "package" policy, so called because it combines protection against both property loss and personal liability up to stated limits. You can buy a homeowners policy for less than you would pay to cover each risk with a separate policy.

In the chart on page 24, you will see the three major forms of the homeowners policy—the *Basic Form* which covers the first eleven risks in the chart...the *Broad Form* which covers all eighteen risks...the *Comprehensive Form* which covers these eighteen risks and all other perils except those listed at the bottom of the chart.

The Contents Broad Form or the *Tenants Form* is a policy for renters which covers possessions against the eighteen risks described in the chart, as well as providing liability coverage and protection for personal property off the premises. It usually costs less than homeowners insurance because it does not insure against structural damage. Tenant's insurance also covers you against personal liability claims, including medical expenses and legal expenses, as well as against claims made for damage caused by you to others' property.

*The Homeowner's policy is available in Canada, but coverage varies. Check with a local insurance agent for detailed information.

The *Condominium-Unit Owners Form* is similar to the Tenants Form but somewhat expanded. The *mobilehome policy* is basically the same coverage as the Homeowners Broad Form but its premiums are higher. That is because the construction differences in manufactured homes make them more susceptible to wind damage. Probably the most popular of all forms of homeowners insurance is the *Special Form.* With this policy, the homeowner obtains the same broad coverage as the Comprehensive Form for a dwelling, but cuts costs by covering personal property for the smaller number of perils included in the Broad Form.

Some Valuable Tips

- **Know what type of coverage your insurance provides,** what it costs, and when premiums are due.
- **Keep your insurance up to date.** Review and update it annually, taking inflation, capital improvements and new items of value into account.
- **Get an "inflation guard" provision,** which automatically increases your insurance coverage as the value of your property increases, or review your policy annually with your agent.
- **Take the highest deductible you can afford.** With a $250 deductible, e.g., you would absorb the first $250 of any loss before the insurance company begins to pay. As the deductible goes up, the premium goes down.
- **Install security devices.** Practically every insurance company offers discounts for some combination of the following protective devices: burglar alarms, deadbolt locks on all doors, smoke alarms, fire extinguishers. If you have installed these, ask about a *protective credit endorsement,* a standard insurance form that tells how much your premiums will be reduced as a result.
- **Take out replacement value insurance.** Most policies are written for "full value" coverage of personal property—i.e., they cover their replacement value *less depreciation.* This of course amounts to much less than it costs to replace damaged goods. Replacement value insurance provides for the replacement of household items at current prices. It costs 10-20 percent more than full value coverage, but it is highly recommended. Know what type of coverage and exclusions your insurance provides.
- **Prepare for possible claims.** Be able to document your losses. Take slides or snapshots of all household valuables, including TVs, stereos, jewelry, paintings, antiques, etc. Keep records of your silver and any coin and stamp collections. Keep photos and records, along with sales receipts, cancelled checks and professional appraisals in a safety deposit box. At the end of each year review your recent purchases to see if additional insurance coverage is needed.
- **Report losses to your agent promptly** with all the details needed to make your claim.

Maintenance, Repairs and Home Improvements

Why provide regular maintenance and keep your residence in good repair? The primary reason is to protect your investment, but in the long run you may also save yourself some money, not to mention aggravation. Home improvements do not necessarily bring a profit when a house is sold (this depends on a variety of factors), but they are likely to bring *you* much satisfaction! In this section, you will find tips on how to get the most from your maintenance, repair and remodeling dollars.

Maintenance and Repairs

Many homeowners prefer handling these jobs themselves, hiring experts only when absolutely necessary. Some of them, however, particularly those who have recently purchased an older home—are signing up for a warranty repair service.

Doing It Yourself

While handling maintenance and repair tasks yourself can save you 50-75 percent in costs, this is not recommended for everyone. Although many of these jobs can be handled without difficulty even by amateurs, other work must by law be done by licensed professionals—major plumbing, heating and electrical work, for example. If you wish to tackle certain tasks but lack skill and experience, you can probably find manuals on home repair and routine maintenance in your library. Or perhaps you could take an adult education course in this subject area at your local high school or community college, or through your county extension service. Hardware store clerks can be surprisingly helpful, by the way!

Hiring a Pro

If a friend or neighbor can recommend a good repair person, so much the better. If not, get some names from the Yellow Pages and, before calling them, check with the Better Business Bureau to see if they are reputable. The majority of people engaged in home repairs are trustworthy, but it will pay to take some precautions.

- Beware of scare tactics as well as fantastic "bargains" that amount to giveaways.
- Stand firm against high-pressure selling tactics.
- Seek the advice of a recognized expert before signing with a salesperson who insists repairs are urgently needed.

Home-Repair Warranty Plans

Home-repair warranty plans work best for owners of older homes who aren't handy around the house. These firms service, repair or replace the heating, air conditioning, electrical and plumbing systems and built-in appliances. One-, two- and three-year plans are available, usually with a small deductible. Before signing up for one, obtain names of a few customers and ask them how they rate the service.

Home Improvements

Improving a home in any substantial way is expensive. Most people do so because they hope to improve the quality of their day-to-day living, but of course they also hope that the changes will appeal to future buyers. This is more likely to happen if, before undertaking home improvements of any kind, you consider these factors:

- Are the improvements appropriate to the house and to the neighborhood? You are likely to lose money when you sell if they increase your property value far beyond those of the houses nearby.
- Do the local zoning ordinances and building codes permit such changes?
- Will a building permit be required?

- How much will it cost?
- Will the changes increase the property value?
- What will they mean in future taxes?
- Does your state provide tax breaks for installing alternate-energy systems, conservation and weatherization projects?

Hiring a Contractor

You want a contractor with a long-established reputation for honesty, reliability and good workmanship. Obtain references from friends and neighbors, and contact a professional trade association like the National Association of Home Builders or the National Association of the Remodeling Industry for names of local members.

It is particularly important to check with the local Better Business Bureau or consumer affairs agency to see if complaints have been lodged against any one of those you are considering. Get bids from at least three that have passed muster.

Before doing so, write down a rough set of specifications for the job you want done. List the tasks involved, the materials you want used, etc. Take note of any modifications that contractors suggest. Some of them offer package plans in which they provide all the materials, handle the work from A to Z, and arrange for the financing.

Ask each contractor to be specific about the materials he or she is planning to use and any extras included, so you can better compare bids. Find out just what the contractor plans to do and when the job will be done. Also determine if the contractors' projects are covered by remodeling warranty programs.

Hold off signing a contract until you've talked to at least three, and have had time to think about it. Don't accept the word of a contractor who insists that a formal agreement isn't needed. Ask each one for a list of previously completed jobs and query at least one or two customers to see how satisfied they were with the work done. If the reports are good, go over the specifications carefully. The first estimate may be rough; ask for a precise estimate of the costs and the time involved before making up your mind. Then sign the contract!

The Contract

The written contract for the work should state the type and extent of the improvements to be made and materials used. Read and understand every word before you sign, making sure that the contractor has obtained the essential building permits. (It would be wise to have a contract lawyer check it over.) A good contract would include the following:

- complete job specifications
- the starting date and approximate completion date
- the guaranteed maximum cost of the job
- a statement that modifications can be made only if both parties later agree to them in writing
- a hold-back clause, in which the final payment is not made for 30 days or so; this gives you a chance to see how well the work has been done and it induces the contractor to correct any defects
- the contractor's type and amount of liability coverage
- a warranty on the work
- a clause that holds the contractor responsible for cleanup and removal of debris
- assurance of credit or refund for materials not used
- cancellation rights

Financing Your Repairs and Improvements

In the U.S., there are several different types of home improvement loans, including personal loans, secured and unsecured; conventional improvement loans and FHA Title I loans; VA-guaranteed loans, a refinanced first mortgage; a second mortgage or home equity loan, and loans on your life insurance and passbook account.

Shop around for financing, even though the contractor wants to handle it for you, and always determine the annual percentage rate of each financing arrangement. Some of the most popular types of home-improvement loans follow.

Conventional Unsecured Loans

These are available primarily from banks and S&Ls. The loans are usually restricted to a few thousand dollars and must be repaid within five to seven years. If the loan exceeds $5,000, you will probably have to put up your home as security.

Refinancing Your First Mortgage

If you have considerable equity in your home, a lender may be willing to combine the unpaid balance with the amount you need for the improvements. Your mortgage rate could be either higher or lower than it has been; this depends upon the interest rates in effect at the time. Closing costs are usually involved when you refinance.

Second Mortgages and Home Equity Loans

A second mortgage, also called a home equity loan, can be obtained by utilizing the equity in your home—i.e., the difference between the balance of your mortgage and the current market value of your house. This increasingly popular source of cash credit is used for large expenditures such as home improvements or remodeling.

Home equity loans come in different forms. The traditional second mortgage loan is installment credit. The borrower receives the money in a lump sum and repays it in regular installments over the length of the loan. Interest rates vary with the size of the loan and the amount of time you take to repay it.

The popular home equity loans are available with a revolving line of credit, which offers greater flexibility. The lines of credit can be accessed by writing checks or, in some cases, with a credit card. In any event, you pay interest only on what you use. The rates depend on the amount of the credit line.

Traditional lenders may offer these types of loans for up to 85 percent of the value of the home, minus the first mortgage. In the long run, a second mortgage can be less expensive than refinancing an existing mortgage, especially if the existing mortgage has a rate well below the current market rate.

Before you take out a second mortgage, be sure you can answer the following questions:

- How much will the loan cost? What fees, such as application fees, origination fees or annual fees, are charged? What costs, such as the title search, appraisal and attorney's fee, must you pay?
- Are there prepayment penalties?
- When is the loan to be repaid?
- How much are the monthly payments and what do they cover? In some cases, both interest and principal are included in the monthly payments. In others you pay only the interest, with a balloon payment due when the loan matures.
- What is the interest rate? When and how much can it change? Is there a cap?
- What is the minimum amount which you can borrow?
- What is the minimum amount for which you can write access checks?

Because your home is used as security, these types of loans should not be taken lightly. Remember, your home is probably your most valuable asset. If you default, you could lose it.

FHA Title I Loans

These government-insured mortgages are arranged through approved banks, S&Ls and credit unions, but terms are set by the federal government. VA-guaranteed and FmHA-insured home-improvement loans are also available to qualified homeowners, but below-market maximum interest rates sometimes make these harder to get than conventional loans. Inquire at your nearest FHA insuring office, your local Chamber of Commerce, home builders association or Better Business Bureau to see which firms make FHA loans. When an FHA Title I loan exceeds a specified amount, your home is used as collateral.

Taking out a loan in which your home is used as collateral is a serious business, and for that reason the **Consumer Credit Protection Act** (page 21) includes a three-day cancellation rule. The creditor must provide a specific notice of your right to cancel the transaction. If you use this right, you must mail or deliver a copy of the notice or any other written statement that identifies the transaction to the lender no later than midnight of the third business day. You are not liable for a finance charge or any other, and any lien on the residence as a result of the transaction becomes invalid.

During the three-day period, no changes can be made in the property, no work or services performed, nor money in escrow distributed. The reason for this rule is to allow the customer to think over any decisions that might have been made in haste. However, in a real emergency situation, such as to repair a furnace in the middle of winter or to replace windows shattered by a storm, the law permits the customer to give up the right to cancellation.

If you decide to go ahead with the work, you will be asked to sign a certificate upon its completion. This certifies that you approve the work and authorize the lender to pay the contractor. Don't sign it until you have gotten lien waivers from the contractor and subcontractors involved, or you have seen proof that the contractor has paid them. (A lien is a claim upon a property until a debt is paid.) Unpaid subcontractors could legally obtain a mechanic's lien on your house.

Energy-Efficient Housing

Everyone wants to reduce energy costs today and fortunately there are many ways this can be done. This section includes energy-saving tips of use to homeowners and in some cases to renters, and brief accounts of solar heating, superinsulated and earth-sheltered housing.

Energy-Saving Tips

Homeowners, as a start, in order to find out where energy waste is occurring and what to do about it, might well consider getting an *energy audit*. They are available from both public utilities and private firms. If you decide to use one of the latter, it would be wise to check out its reputation with the Better Business Bureau or Chamber of Commerce before arranging for the service.

Some of these energy-saving ideas are costly and others are not, but all should prove effective.

- Install storm doors where needed: triple-glazed windows on the north, east and west sides; double-glazed on the south. Consider insulated shutters for interior or exterior use.
- Renters should consider using nonpermanent, snap-on interior storm windows of rigid plastic.
- Install glass doors on your fireplace, and a heat-circulating device if possible.
- Consider the installation of a mechanical furnace ignition, an automatic setback thermostat, and energy-saving appliances.
- When purchasing a new appliance, look for the Yellow Energy Guide Label attached to each unit in the U.S.; in Canada look for the Energuide label.
- If you need a new water heater, consider getting a heat pump or solar-assisted water heating system, both of which use less energy than electric or oil-fired conventional water heaters.
- Insulate your walls and attic. Insulation efficiency is rated in R-values, which indicate a material's resistance to heat flow. The higher the R-value, the more effective the insulation. Consult with your utility company to determine the R-value recommended for your area.
- If you need a new air conditioner, compare the EER (Energy Efficiency Rating) of various units. Higher EERs mean more efficient, quieter running units, but also higher prices. An undersized air conditioner, by the way, is more efficient than an oversized unit.
- Landscape in ways that help to control house temperatures. Both plants and trees can serve as windbreakers; large trees can shade windows, walls and roof from direct sunlight.

Solar Heating

It is estimated that up to 75 percent in heating costs can be saved by the use of solar energy. There are two types of solar heating: active and passive. A house with passive solar heating utilizes certain elements of the building such as a wall of windows facing south and a thermal mass. (A thermal mass is some type of heat-storing material—a quarry tile floor, a masonry, brick or stone wall or fireplace, e.g.—that absorbs the sun's rays and then releases the heat slowly as the surrounding indoor air cools. No mechanical power is used to distribute it.) An active solar heating system has solar collectors to absorb heat and mechanical means of automatically storing, distributing and releasing it. Both passive and active solar heating systems require auxiliary heaters as backups in extremely cold weather.

Solar heating of both types is most effective in areas of cold temperatures and abundant sunshine. Anyone interested in solar heating should proceed cautiously, first discussing the matter with a competent solar engineer. Solar installations are expensive and some equipment is still in an experimental stage.

Superinsulated and Earth-Sheltered Housing

For superior energy efficiency in housing today, at a reasonable cost, the *superinsulated*, solar-oriented, airtight houses, traditional in design, cannot be surpassed. Because they have double-thick walls and three times more insulation in ceilings and floors than do existing houses built to standard energy codes, their heating and cooling costs are at least 80 percent less. In addition, most of the triple-glazed windows in these houses face south and roof overhangs extending 30 inches from the windows block out the summer sun. Thanks to a relatively new device called an air-to-air heat exchanger, the air in these houses is not stale or damp, and 80 percent of the heat ventilation is recovered.

Earth-sheltered housing, one of the most energy-efficient types of housing available today, is so called because a substantial portion of it is underground. The costs of heating and cooling an earth-sheltered house run approximately 50-60 percent less than those of a comparable size conventional home, because the constant year-round temperature of the earth is between 50°-60°F (10°-15°C). In addition, earth-sheltered homes often have a wall of windows facing south that afford passive solar gain and an abundance of natural light.

Earth-sheltered homes require little maintenance, offer safety from wind, lightning and tornados, are impervious to termites and wood rot, and are far less vulnerable to vandalism and burglary. Property insurance rates are lower as a result.

Selling Your Home

The ease with which you sell your dwelling often depends upon the housing market and the availability and costs of financing. To make it more saleable, however, examine it from the buyer's point of view. Does it have "curb appeal"? Pay special attention to the exterior and grounds—trim shrubbery, clean up the yard, wash windows, repair gutters, driveway and front stairs, etc. The interior should also look spic and span and inviting. Clear off countertops, pick up clutter, clean out closets, etc.

Save your receipts for any painting and repairs, because certain fix-up expenses may reduce your capital gains tax. The jobs must be done within 90 days before signing the sales contract and must be paid no later than 30 days after the sale, however.

To promote the sale of your home, consider making up a fact sheet, including square footage, number of rooms, heating costs, taxes. Emphasize important improvements such as a new furnace, remodeled kitchen or added insulation, e.g., as well as other attractive selling features.

If You Do the Selling

People try to sell their homes themselves in order to avoid paying a real estate commission, but this may or may not work out to your advantage. Much depends on market conditions and your own situation. If you can answer yes to the following questions, however, you may well find it worthwhile to serve as your own agent.

- Is the housing market strong?
- Are mortgage funds readily available?
- Are you in a good location?
- Is your home in saleable condition?
- Do you have plenty of time and patience?
- Do you have a talent for selling?

If you live in a good-size city and are interested in obtaining some professional assistance in marketing your house, check out one of the new firms that exist for this purpose. For a flat fee that is considerably lower than the usual commission, the company will handle the advertising—from composing the ad to placing it—as well as provide signs and screen callers.

Asking a realistic price for your home is the key to a quick sale. Check the classified ads to learn the asking price of comparable homes or at the county courthouse to determine the selling price of homes in your neighborhood. You might also hire a professional appraiser. Don't forget to leave some bargaining room—usually 10-15 percent more than the lowest acceptable offer. Bear in mind that in some cases you may be able to help finance a prospective buyer yourself. (See page 22.)

Engaging a Broker or Agent

If selling your home yourself is out of the question, you will undoubtedly have to turn to a real estate agent to price it, advertise it, screen calls, show it, and draft an offer. Real estate fees are generally six to seven percent of the selling price of your home, but they are negotiable. Shop around before selecting an agent and find out what services he or she will provide.

Listing your home with an agent can be done in several ways:

- An **open listing** allows you to list your home with more than one agent; you pay the one who finds a buyer. No fee is paid if you locate a buyer.
- An **exclusive agency listing** gives a specific agency the right to sell your home for a specific time period. You can still reserve the right to sell your own home without paying a fee, however.
- An **exclusive right to sell** allows only a specific agent to sell your home for a set length of time. Should you find a buyer, the fee must still be paid.
- A **multiple listing** allows any agent who belongs to the multiple listing service in a community to sell your home. The fee is then split between the listing agent and the selling agent.

Tax-Saving Strategies

In the U.S., taxes on any capital gains that result from the sale of your principal residence can be deferred by reinvesting this money in a home of equal or greater value within two years.* If you are not planning to buy within this time period, but are 55 years old or older, you are entitled to a once-in-a-lifetime tax break. Up to $125,000 of capital gains from the sale of your principal residence is nontaxable, provided you have lived there three years.

Although a capital loss on the sale of your home is not tax deductible, both gains and losses must be reported to the IRS whenever there is a sale or exchange of a personal residence. For any special tax situations you should check with a tax accountant.

*In Canada, capital gains on the sale of a principal residence are not subject to income tax.

Planning Your Move

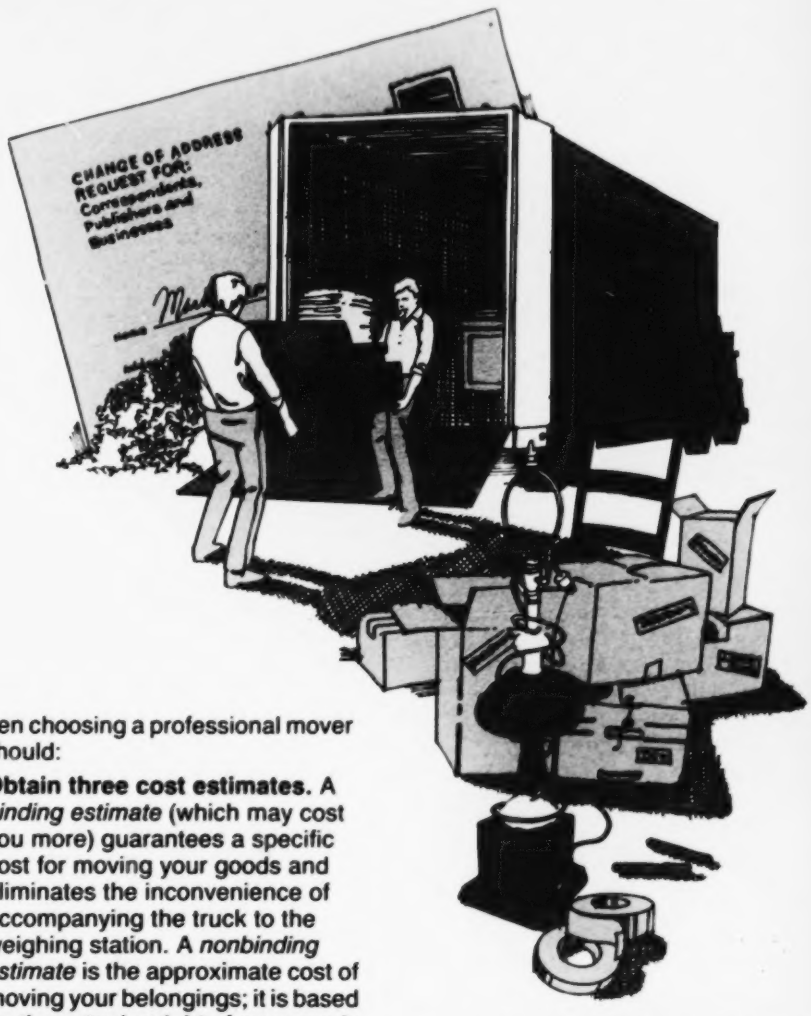
Whether you are moving across the country or across town, changing your residence is never an easy job. It goes more smoothly, however, when each step is carefully planned and well organized. One of the first decisions to be made is who will do the moving—you or professionals.

Moving Yourself

"Doing-it-yourself" can be a real cost saver, but be sure to take into consideration the expenses of rental items like pads and dollies, your labor costs, if any, at both the origin and destination of the move, and insurance. You will be certain of moving on a specific date and arriving at your destination with all of your belongings, but don't underestimate the work involved! Trucks or trailers can be rented by the day for local moves. If you are moving less than 100 miles and have the time, consider returning the equipment to the original dealer, because rates are usually cheaper. Be sure to find out about insurance and rental charges, and reserve the equipment in advance.

Hiring Professionals

Professional movers generally charge by the hour for local moves and by the shipment weight for long-distance ones. Before selecting a moving firm, check with friends who have moved recently, your real estate agent, or a person who arranges transfers at your company. It is also a good idea to check with the Better Business Bureau or the Chamber of Commerce. In the U.S., provisions in the **Household Goods Transportation Act of 1980** allow professional movers to offer service options which best meet your needs. For example, if you want a firm price, a guaranteed pickup or delivery date or special care in packing certain possessions, you can find a mover who offers these types of services.



When choosing a professional mover you should:

- **Obtain three cost estimates.** A *binding estimate* (which may cost you more) guarantees a specific cost for moving your goods and eliminates the inconvenience of accompanying the truck to the weighing station. A *nonbinding estimate* is the approximate cost of moving your belongings; it is based on the actual weight of your goods and the distances traveled, as well as the additional services provided—packing, appliance servicing, maid service, etc. The final cost may be higher or lower than the estimated amount. It is recommended that you be present when the truck is weighed.
- **Compare performance reports.** Interstate carriers will provide this information upon request. The report shows the percentage of shipments picked up and delivered on time, the percentage of goods lost or damaged and the percentage of claims filed.
- **Ask about the carrier's liability.** The mover will make an inventory of the goods to be moved and note their condition—scratched or chipped, for example. The minimum liability, 60¢ per pound, is free. The carrier will assume liability at an amount equal to $1.25 per pound, however, unless you request the minimum. In each case, you are rating the value of your possessions, not buying insurance. Claims are settled on the depreciated value of your goods. Another option, available at additional cost, is full-value, nondepreciated protection.

- **Find out how payment is made.** Federal regulations require payment by cash or traveler's check, certified check or money order. A few carriers accept credit cards. Payment is generally due before the goods are unloaded.
- **Read the bill of lading carefully before you sign.** This is your contract with the moving company.

Packing Your Household Belongings

Packing things yourself is more economical, but you'd better have time and energy to spare! Moving companies cooperate by providing packing tips as well as professional moving aids—heavy-duty cartons, hand trucks, furniture pads, etc.—usually for a moderate fee. If you handle the task yourself, remember that the movers can refuse to take improperly packed cartons and insist upon doing the repacking themselves. Once the cartons are accepted, however, the moving firm is liable for any breakage which may occur.

Whether you decide to pack yourself or have the movers do it, you can cut costs by sorting through closets, drawers, boxes, etc. Then have a garage sale to dispose of any unwanted items and help defray moving expenses at the same time.

Important documents, jewelry, photo albums and other items of special value to you should be carried with you and not shipped with the rest of your belongings. Movers will generally not move plants or pets, so you will need to make special arrangements for them.

Organizing Your Move

The key to a successful move is organization. If using a professional, try to avoid scheduling a move during the summer months or toward the end of any month; demands for vans, equipment and personnel are greater at these times. Give them the moving date as soon as you possibly can.

You must be available to pay the driver and direct the movers upon arrival. (File the receipts for all moving expenses in a safe place; if the move is job related, some of the cost may be tax deductible.) As the truck is unloaded, check off the items on your inventory sheet and inspect the goods for damage. Make a list of any missing or damaged goods.

Your Rights and Responsibilities

No matter how carefully a move is planned, you may still experience some problems—delays in pickup or delivery, a shipment arriving too early, damaged or lost goods. Knowing your rights and responsibilities will enable you to deal more effectively with these problems.

Delays in Shipping

Ideally, the goods should be picked up and delivered on time, but adverse weather conditions, traffic problems, fuel shortages and scheduling conflicts can cause unexpected delays. For an additional fee, some movers will guarantee pickup and delivery dates. You are then paid a flat per diem rate for every day they are delayed. Also available is "expedited service"; you pay the mover extra for delivering your goods on time or early. If the movers are late, they simply forfeit their bonus.

If you incur additional expenses because of a delay, file a claim with the movers, even if you have not paid for expedited service. They might reimburse you.

Lost or Damaged Goods

If any goods are lost or damaged, report this to the moving company as soon as possible, but definitely before the nine-month time period legally allowed is up. Since reasonable proof must be furnished, do *not* discard any broken items. The mover has 30 days to acknowledge the receipt of your claim and 120 days to offer a settlement or deny liability.

In most cases moving companies will make every effort to settle your claim quickly and satisfactorily. Look for guaranteed settlement within a specified period or a per diem payment when you are selecting a mover. Larger moving companies are now establishing dispute-resolution programs which operate similarly to an arbitration panel. Disputes are settled out of court and without a lawyer. Should a serious problem arise, you may wish to contact:

- the local moving company representative
- the van line's consumer affairs office
- a Consumer Action Line
- the Better Business Bureau

Seeking compensation is largely a do-it-yourself endeavor. Therefore choose your mover carefully. Selecting a reputable firm with a good performance record will make the task much easier.

Suggested Resources

Organizations

Upon written request, many trade associations, businesses and government agencies provide information on particular aspects of housing. Some of these are listed below.

United States

American Society of Home Inspectors (ASHI)
3299 K Street, N.W.
7th Floor
Washington, D.C. 20007

Consumer Information Center
Pueblo, Colorado 81009

Cooperative Extension Service
County offices are listed in the white pages of your local phone book under your specific county.

Federal Trade Commission
Washington, D.C. 20580

Manufactured Housing Institute
1745 Jefferson Davis Highway
Suite 511
Arlington, Virginia 22202

National Association of Home Builders (NAHB)
15th and M Street, N.W.
Washington, D.C. 20005

National Association of Realtors (NAR)
430 North Michigan Avenue
Chicago, Illinois 60611

National Association of the Remodeling Industry (NARI)
1901 North Moore Street
Suite 808
Arlington, Virginia 22209

U.S. Department of Housing and Urban Development
451 Seventh Street, S.W.
Washington, D.C. 20410

Canada

Canada Mortgage and Housing Corporation
682 Montreal Road
Ottawa, Ontario K1A 0P7

The Canadian Home Builders' Association
200 Elgin Street
Suite 502
Ottawa, Ontario K2P 1L5

The Canadian Real Estate Association
Suite 2100, Place DeVille
Tower A
320 Queen Street
Ottawa, Ontario K1R 5A3

Consumer and Corporate Affairs Canada
Consumer Services Branch
Place du Portage, Phase 1
50 Victoria Street
Hull, Quebec K1A 0C9

Consumers' Association of Canada
Box 9300
Ottawa, Ontario K1G 3T9

The Mortgage Insurance Company of Canada
Box 12
Dundas Street West
Suite 1600
Toronto, Ontario M5G 1Z3

Books and Pamphlets

United States

This booklet was designed to be a primer on housing, but there are numerous other publications that cover the various aspects of this subject in greater depth. Listed below are just a few of those available. Addresses for selected publications can be found under *Organizations.*

The American Lawyer: How to Choose and Use One. Buying or Selling Your Home. Landlords & Tenants, Your Guide to the Law. American Bar Association. Order Fulfillment Department, 750 North Lake Shore Drive, Chicago, Illinois 60611. $2.00 each.

Buying a New Home: A Step-by-Step Guide. National Association of Home Builders' Book Store. $3.50

Buying and Selling a Home in Today's Market. Meyers, Joan. Kiplinger Washington Editors, Inc., 1729 H Street, N.W., Washington, D.C. 20006. $6.95. ($1.00 postage and handling)

Consumer's Guide to Selecting an Apartment. Consumer's Guide to Buying a Residential Condominium. Institute of Real Estate Management. 430 North Michigan Avenue, Chicago, Illinois 60611-4090. Single copies free.

Consumer Handbook on Adjustable Rate Mortgages. A Consumer's Guide to Mortgage Closings. A Consumer's Guide to Mortgage Lock-Ins. A Consumer's Guide to Mortgage Refinancing. Federal Reserve Board. Publications Services, Washington, D.C. 20551. Free.

Consumer Information Catalog. Consumer Information Center. Free.

Estimating Home Value. American Institute of Real Estate Appraisers. Free.

The Home Buyer's Guide to HOW. Home Owners Warranty Corporation. 2000 L Street, N.W., Washington, D.C. 20036.

Home Buying. Harrison, Henry S. and Leonard, Margery. Realtors National Marketing Institute. 430 North Michigan Avenue, Chicago, Illinois 60611. $16.00. ($3.00 postage and handling)

Acknowledgments

The Home Inspection & You. Free. **Maintaining Your Home.** $1.00. American Society of Home Inspectors. (include a business-size, self-addressed stamped envelope)

How to Buy A Manufactured (Mobile) Home. The Mortgage Money Guide. Escrow Accounts for Home Mortgages. Refinancing Your Home. Federal Trade Commission. Free.

Insuring Your Home. Wysocki, Joseph. Cooperative Extension Service. College of Agriculture, University of Illinois, Urbana, Illinois 61801. Single copies free.

Canada

Helpful Hints for Home Buyers. The Mortgage Insurance Company of Canada. Free.

Monthly Mortgage Payments. H.B. Fenn & Co., Ltd. 2455 Lucknow Drive, Mississauga, Ontario L5S 1H9. $4.95.

In order to present a well-balanced point of view in this booklet, a number of persons were consulted and many publications reviewed. This booklet represents a synthesis of information rather than the viewpoints of individuals or associations. For assistance in helping us obtain a clearer understanding of the subject, we give grateful acknowledgement to:

AMERICAN SOCIETY OF HOME INSPECTORS, Washington, D.C.

JOHN AULD, *Assistant Professor of Housing Studies, Department of Consumer Studies, University of Guelph,* Guelph, Ontario.

CANADA MORTGAGE AND HOUSING CORPORATION, Ottawa, Ontario.

CANADIAN HOME BUILDERS' ASSOCIATION, Toronto, Ontario.

CANADIAN REAL ESTATE ASSOCIATION, Ottawa, Ontario.

MORAG E. FULLILOVE, *Senior Vice President, Alliance of American Insurers,* Schaumburg, Illinois.

HOME OWNERS WARRANTY CORPORATION (HOW), Washington, D.C.

ILLINOIS STATE UNIVERSITY, DEPARTMENT OF HOME ECONOMICS, Normal, Illinois.

JULIE MAHONEY, *Research Associate, The National Association of Realtors,* Chicago, Illinois.

STEWART MALLIN, *Professor, Faculty of Human Ecology, Department of Family Studies, University of Manitoba,* Winnipeg, Manitoba.

MANUFACTURED HOUSING INSTITUTE, Arlington, Virginia.

JOAN MAUCH, *American Institute of Real Estate Appraisers,* Chicago, Illinois.

NATIONAL ASSOCIATION OF HOME BUILDERS, Washington, D.C.

NATIONAL ASSOCIATION OF THE REMODELING INDUSTRY (NARI), Arlington, Virginia.

OKLAHOMA STATE UNIVERSITY, *Department of Housing, Interior Design, and Consumer Studies, College of Home Economics,* Stillwater, Oklahoma.

UNITED VAN LINES, Fenton, Missouri.

JOSEPH L. WYSOCKI, *Extension Housing Specialist, Division of Family and Consumer Economics, University of Illinois,* Urbana, Illinois.

You and Consumer Education

One of life's important concerns is the management of personal economic affairs to obtain the greatest satisfaction from the level of one's income. Essential to the development of economic competence is the ability to plan, organize, control and evaluate the use of resources to achieve goals—whether they relate to choosing a job, earning, spending, saving, borrowing, investing or making decisions for the future.

As individual consumers, teachers or leaders of consumers, we have the challenge to understand, communicate and apply basic principles of economics to everyday financial concerns. This will strengthen individual and family living and contribute to the development of more educated, competent citizens in our economy.

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MMI booklets cover all important areas of personal and family finance. They are available individually or as a library of 10 booklets.

YOUR FINANCIAL PLAN presents a personalized easy-to-use plan for managing income. Each $1.00

MANAGING YOUR CREDIT presents a comprehensive and objective guide to understanding consumer credit and managing credit dollars. Each $1.00

CHILDREN AND MONEY MANAGEMENT is for parents and teachers who wish to instruct children in this important subject. Each $1.00

YOUR FOOD DOLLAR offers information on developing a shopping list, deciding where to shop, selecting the best buys and reading food labels. Each $1.00

YOUR HOUSING DOLLAR shows how to determine housing needs and meet housing costs whether you rent, buy or build. $1.00

HOME FURNISHINGS AND EQUIPMENT offers shopping information on buying major appliances, home furnishings, telephones and home electronics equipment.
Each $1.00

YOUR AUTOMOBILE DOLLAR discusses buying, maintaining and operating a car. Each $1.00

YOUR TRAVEL DOLLAR shows how to fit transportation, lodging, meals and incidentals into your travel budget, at home or abroad. Each $1.00

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YOUR INSURANCE DOLLAR introduces the four basic types of insurance—health, life, auto and homeowners—and offers guidelines for buying policies to meet present and future needs. Each $1.00

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MMI audiovisual kits are vivid art presentations of real-life situations illustrating good financial management. Each kit comes with cassette, teacher's guide and spirit masters. MMI audio-visuals can be used as individual teaching aids or to supplement MMI booklets.

GO FOR THE GOLD introduces first-time investors to different financial products and services as well as investments for growth and income. 18 minutes.
Filmstrip kit $8.00
Additional set of spirit masters $1.00

WINNING THE MONEY GAME explains how to effectively manage income by setting goals, making choices and developing a financial plan based on personal values and individual needs. 15 minutes.
Filmstrip kit $8.00
VHS Video kit $12.00
Additional set of spirit masters $1.00

CREDIT—HANDLE WITH CARE explains how to establish credit, why credit costs vary and the kinds of questions asked on credit applications. 20 minutes.
Filmstrip $8.00
Additional set of spirit masters $1.00

FOOD DOLLARS AND SENSE provides the guidance and information needed to make the most of food dollars. 19 minutes.
Filmstrip kit $8.00
Additional set of spirit masters $1.00

WHEELS, DEALS AND YOU discusses planning a car purchase, buying new and used cars, and financing, insuring and maintaining the investment. 19 minutes.
Filmstrip kit $8.00
Additional set of spirit masters $1.00

Money Management FILMSTRIP LIBRARY includes a boxed set of three personal finance filmstrips: WINNING THE MONEY GAME, CREDIT—HANDLE WITH CARE and GO FOR THE GOLD, with accompanying materials.
Set $20.00

Quantity Discounts—Less 10% on orders over $100.

To order or to inquire about any of the above materials, write to:

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HOUSEHOLD INTERNATIONAL
2700 Sanders Road
Prospect Heights, Illinois 60070

HOUSEHOLD FINANCIAL CORPORATION LTD.
85 Bloor Street East
Toronto, Ontario M4W 1B4

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